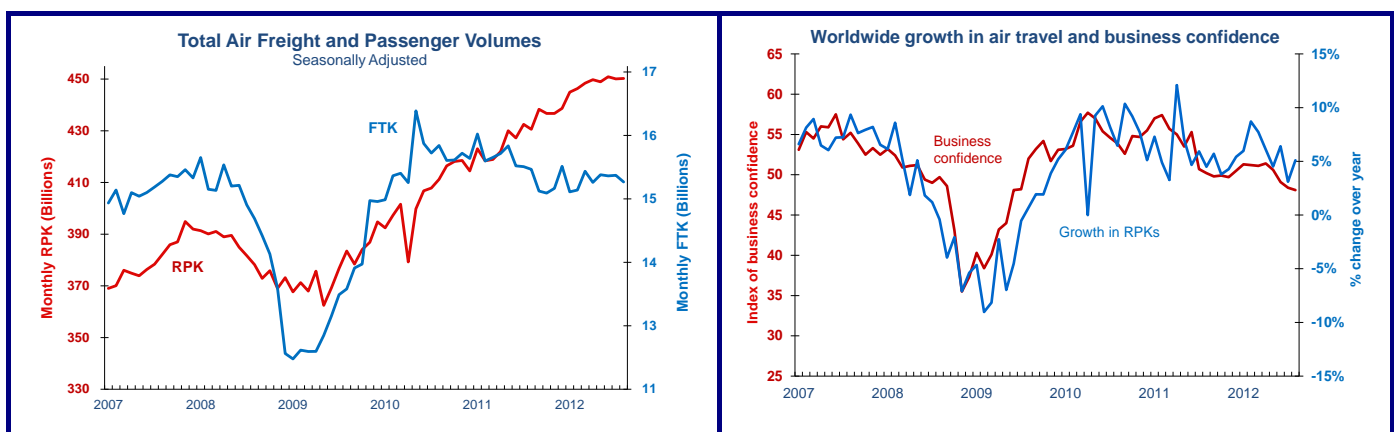


AIR TRANSPORT MARKET ANALYSIS

AUGUST 2012

KEY POINTS

- Global air travel slowed further in August. The number of Revenue Passenger Kilometers (RPKs) flown worldwide were no higher in August than they were in June, after adjusting for the seasonal rise in July and August. Year-on-year comparisons have been very volatile in recent months due to the impact of major fluctuations last year. The comparison with August last year showed RPKs 5.1% higher, compared to 3.1% in July; the apparent acceleration is due entirely to a fall in travel between July and August last year. Part of this was due to the timing of Ramadan, which dampened air travel demand for the entire calendar month of August 2011 but impacted just a portion of this month.
- Since early this year the pace of air travel expansion had been showing signs of slowing down. That's not evident from the 5.8% rise in RPKs in the period January to August, compared to the same period in 2011. But the majority of that growth took place in 2011. Since January global air travel markets have expanded by only 1.2%. The slowdown in air travel is largely a result of falling business confidence and slowing world trade growth.
- On international markets, Asia-Pacific was one of the weakest regions. In August, the market was 2.9% higher than a year ago, reflecting slower economic and trade growth. By contrast European airlines, despite facing recessionary conditions in a number of home markets, expanded the RPKs they carry at a 5.6% year-on-year rate. North American airlines, which have been cutting capacity, saw a 0.5% contraction in demand in August compared to a year ago. The fastest growing region remained the Middle East, where airlines continue to gain market share on many long-haul markets.
- Domestic air travel also shows significant market variation. After a sharp slowdown in the middle of this year, the resurgence of Chinese domestic travel demand continued in August with expansion of 10.8% compared to a year ago; conversely, India's slowing economy has suppressed domestic travel, which contracted 2.0% in August compared to a year ago. Japan's domestic market was down 2.1% in August year-on-year.
- In air freight markets, the signs of a minor recovery that were evident early in 2012 are fading. Global FTKs contracted 0.8% in August compared to a year ago. Moreover, the trend in freight volumes which had stabilized throughout the year also slipped over the month. In August the level of air freight volumes was down 0.8% compared to July. A decline in consumer confidence in major economies over recent months has weakened demand for air freighted consumer goods. Asia/Pacific airlines continue to struggle most, with international traffic in the region contracting 6.3% in August compared to a year ago and 1.8% month-on-month.
- Airlines have responded to weaker air travel and freight markets by slowing capacity expansion. Seasonally adjusted passenger load factors have declined since early 2012 but are still at relatively high levels, particularly in the US, providing some offset to pressures on profitability from the recent renewed rise in jet fuel prices.
- Further declines in business confidence, now at a 38-month low, as well as the slowdown in world trade suggest that growth in air travel and freight will likely weaken further over the next few months.



Year on Year Comparison	August 2012 vs. August 2011						YTD 2012 vs. YTD 2011					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
International	5.3%	4.1%	82.1%	-1.3%	0.7%	46.9%	6.6%	4.6%	79.1%	-2.6%	1.5%	48.7%
Domestic	4.8%	4.2%	82.3%	2.2%	-0.7%	28.7%	4.5%	4.1%	79.7%	1.0%	-1.2%	28.5%
Total Market	5.1%	4.1%	82.1%	-0.8%	0.4%	43.0%	5.8%	4.4%	79.3%	-2.1%	0.9%	44.4%

RPK: Revenue-Passenger-Kilometers; ASK: Available-Seat-Kilometers; PLF: Passenger-Load-Factor; FTK: Freight-Tonne-Kilometers; AFTK: Available Freight Tonne Kilometers; FLF: Freight Load Factor; All Figures are expressed in % change Year on Year except PLF and FLF which are the load factors for the specific month

COMPARING AUGUST TO JULY

Month on Month Comparison	August 2012 vs. July 2012					
	RPK	ASK	PLF pt	FTK	AFTK	FLF pt
International	0.0%	0.2%	-0.2%	-0.8%	-0.2%	-0.7%
Domestic	0.1%	0.3%	-0.2%	-0.3%	-1.1%	0.2%
Total Market	0.0%	0.3%	-0.2%	-0.8%	-0.4%	-0.2%

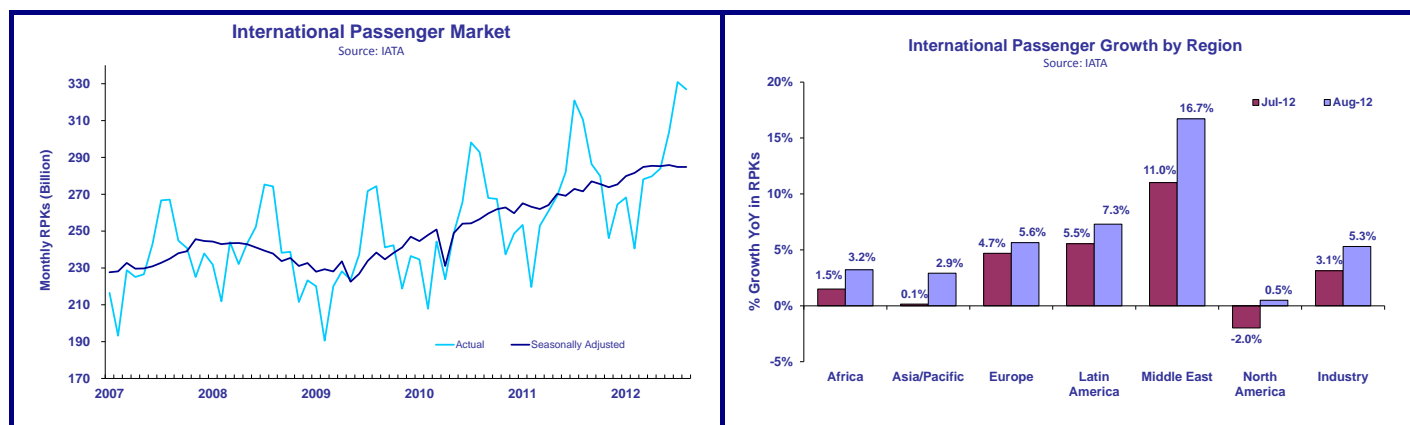
Data are seasonally adjusted.

All figures are expressed in % change month on month except, PLF pt and FLF pt which are the percentage point difference between load factors of two consecutive months.

- After adjusting the air travel data for seasonal factors, passenger markets made no progress in August compared to July. Capacity expanded by 0.3% over the month, pushing load factors down 0.2pt over the same period.
- Freight markets fell in August compared to July, falling 0.8%. Airlines cut capacity 0.4% in response, but not by enough to prevent load factors falling 0.2pt month-on-month.

PASSENGER MARKET

International Markets



- The growth trend in international air travel continues to be weak. The market was flat in August compared to July. The slowdown in international air travel over the last two quarters has closely followed the decline in business confidence, but there is considerable regional variation.
- One of the weakest regions was Asia-Pacific, where airlines face strong competition on many markets and the effects of shifting trade flows. Asia/Pacific airlines experienced an increase of 2.9% in August year-on-year, which is an improvement on July, but contributes little to weakness seen in the growth trend. The market contracted 0.5% in August compared to July.
- The other major component of slower growth is due to North American airlines. Capacity management measures have contained growth in demand, with the region recording the lowest growth result in August – an increase of just 0.5% compared to a year ago.
- In contrast, Middle Eastern airlines continue to expand rapidly on international markets, particularly on long-haul segments. In August the market expanded by 16.7% year-on-year, significantly up on the July result of 11.0%. Some of the increase in August could be a result of the comparison being made to a full

MarketIS

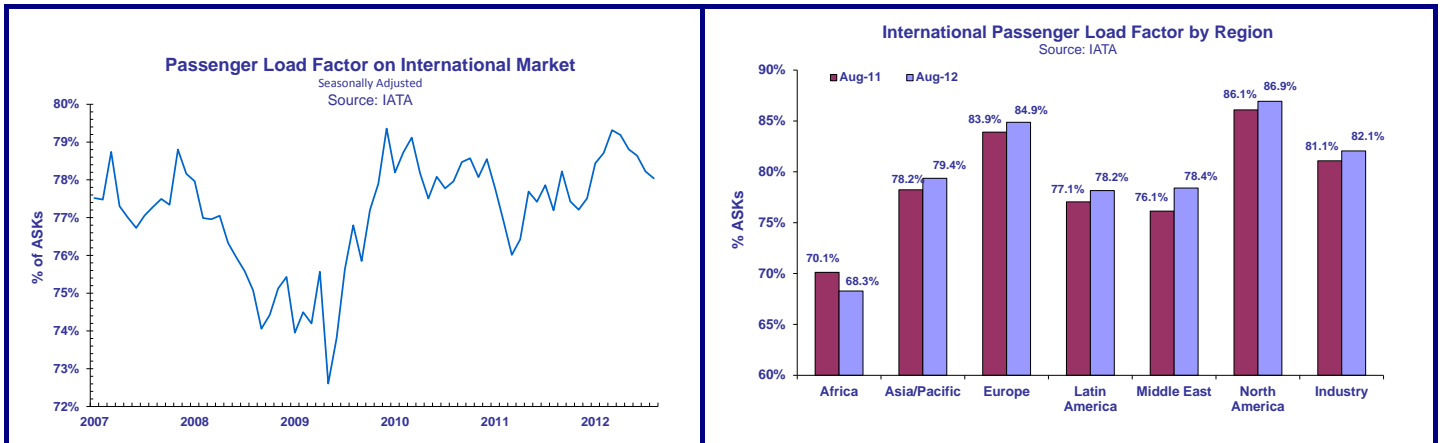
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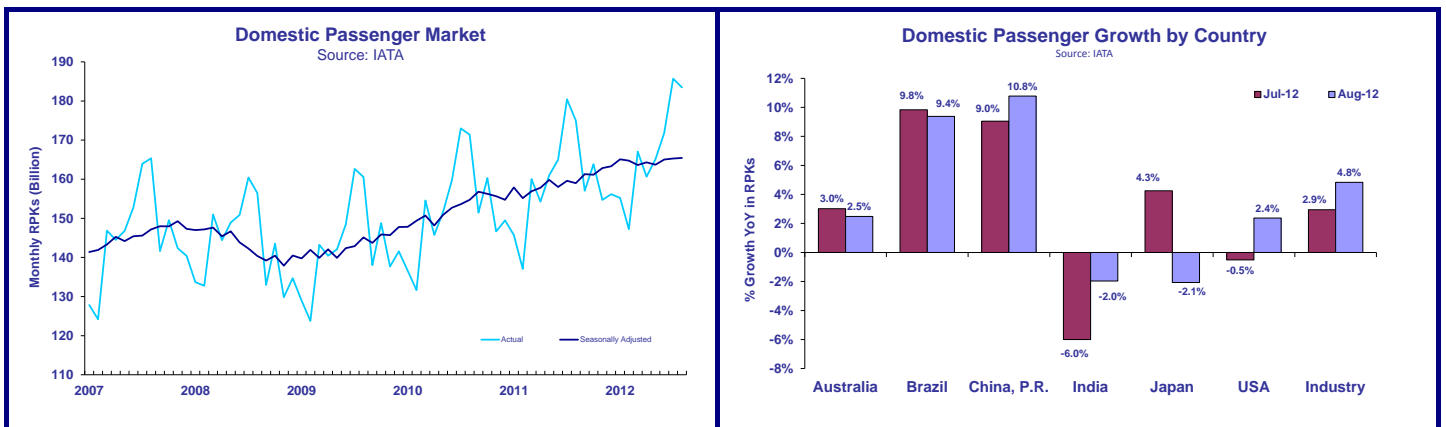
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calendar month of Ramadan in August 2011, which would have dampened air travel over that period. Adjusting for the seasonal impacts, the month-on-month rate continues to trend higher, showing the market increased 1.6% in August compared to July.

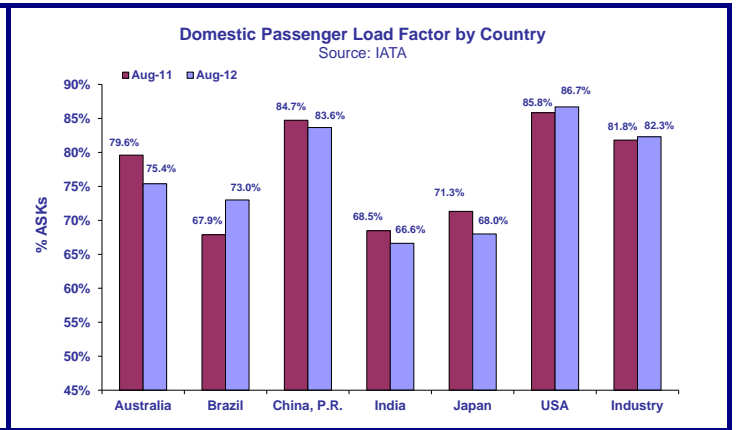
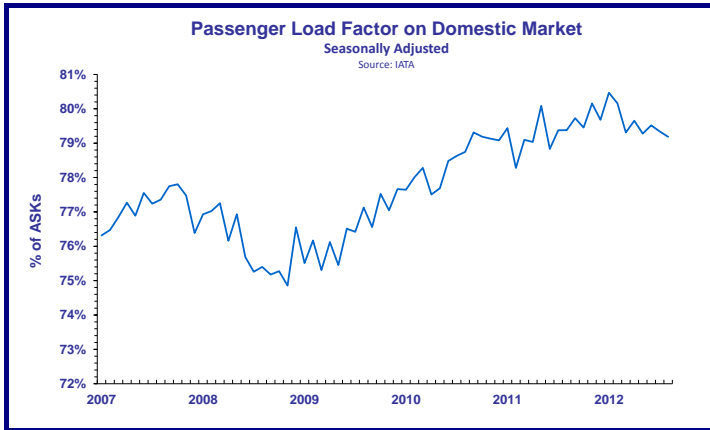
- Despite recession conditions in Europe, airlines from this region have continued to expand on international markets. Travel in Europe expanded by 5.6% in August compared to a year ago. This is up from the July result of 4.7%, showing no sign of weakness.



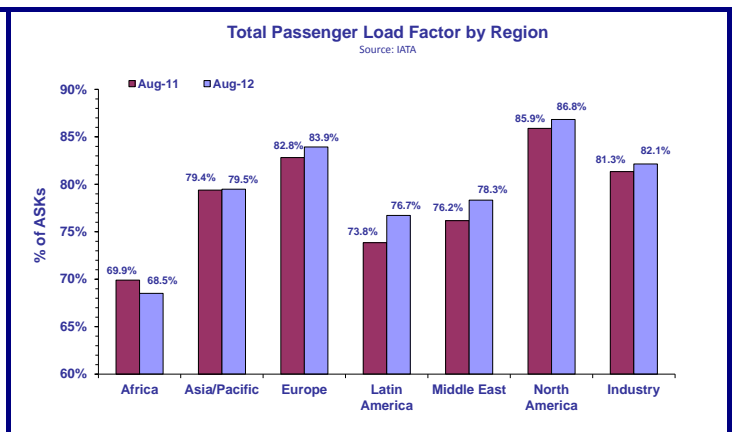
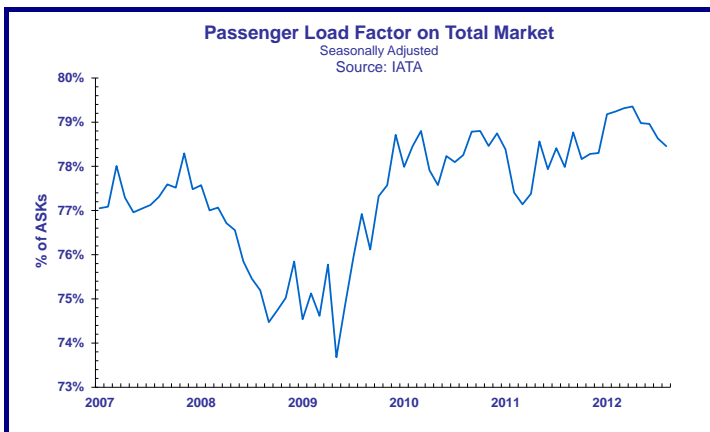
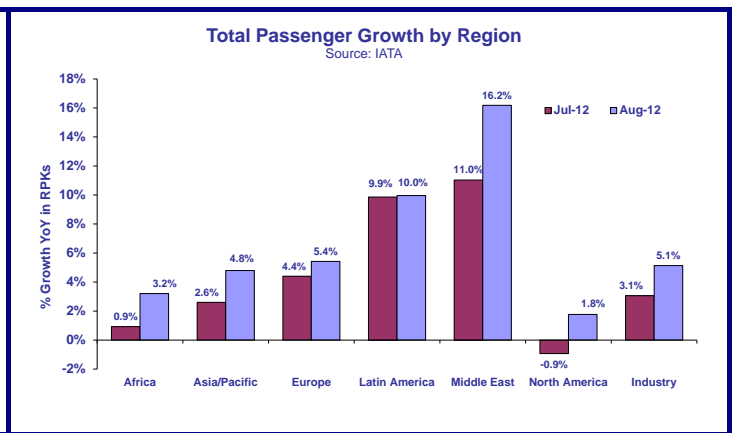
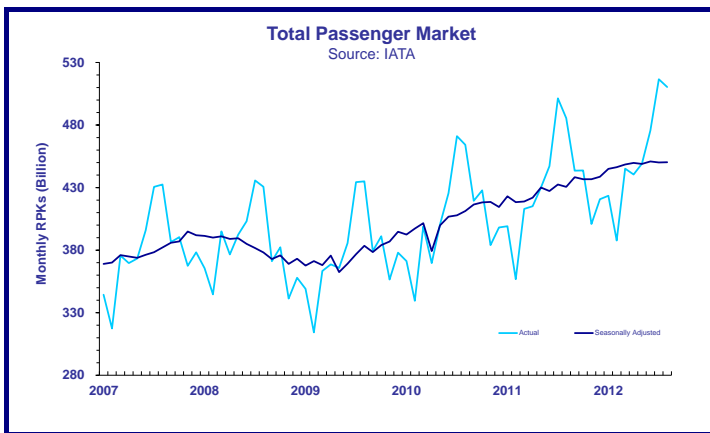
Domestic Market



- The growth trend in domestic markets weakened further in August, perpetuating the weakness which started in early 2012. Domestic travel made no progress in August compared to July, in fact the market contracted by 0.1% month-on-month.
- The weakness, however, is not widespread. The resurgence of Chinese domestic travel demand continued in August with expansion of 10.8% compared to a year ago; after a sharp slowdown in the middle of this year.
- Domestic travel in Brazil, too, was strong in August – increasing 9.4% year-on-year. The growth trend in this market has been weak throughout 2012, but there have been some signs of a pickup in demand over recent months. After economic growth contracted in the first five months of the year, gains in manufacturing output in June-July have suggested a turning point in Brazil's economy, signaling increased activity in H2 2012.
- The cause of weakness in domestic air travel has been a result of recent developments in India and Japan. India's slowing economy has suppressed domestic travel, which contracted in August 2.0% compared to a year ago. Similarly, Japan's domestic market was down 2.1% in August year-on-year - still 10% smaller than pre-earthquake levels.

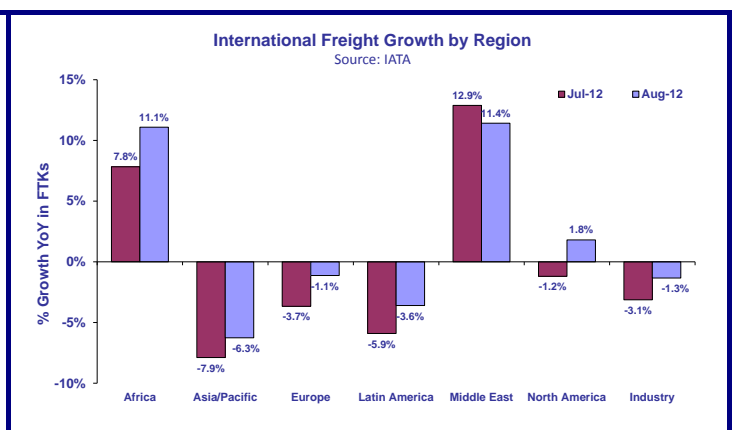
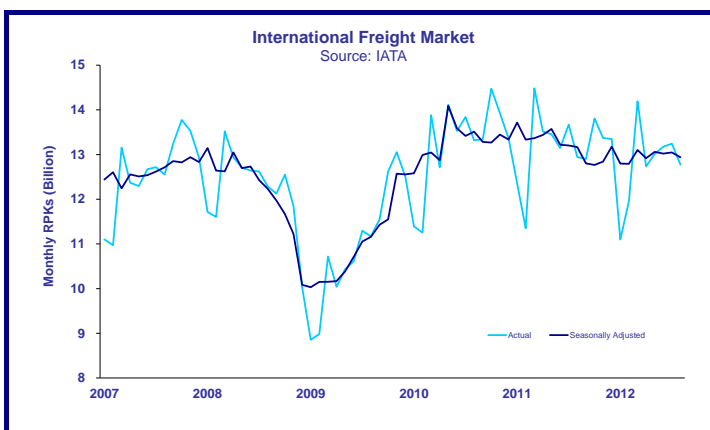


Total Market (Domestic + International)

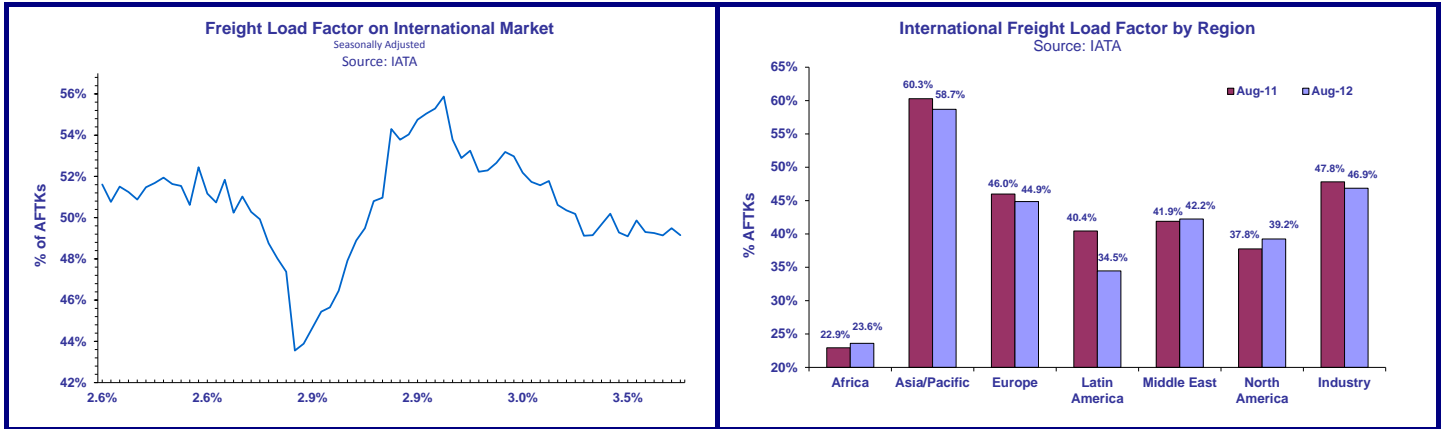


FREIGHT MARKET

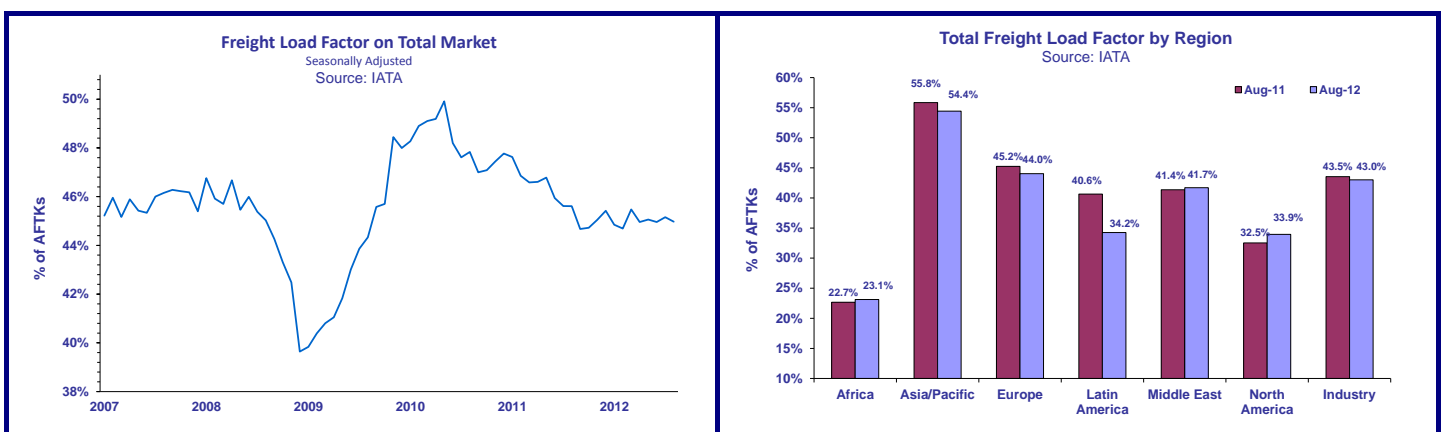
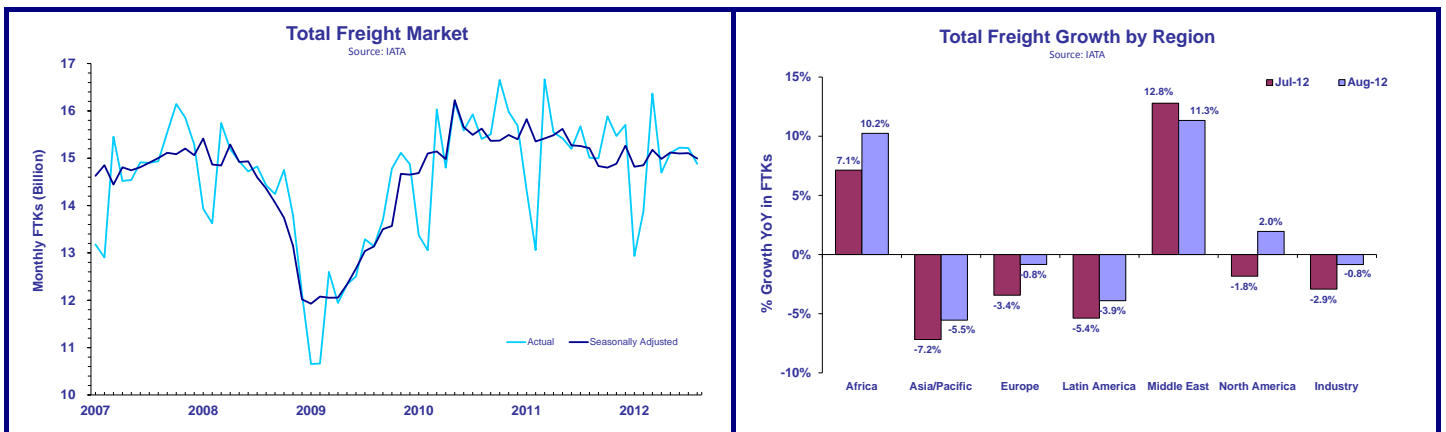
International Market



➤ In air freight markets, the signs of a minor recovery that were evident early in 2012 are fading quickly. International air freight markets contracted 1.3% in August compared to a year ago. The underlying growth trend remains largely stable, but the 0.8% fall in international air freight volumes in August compared to July is a concern – with consumer confidence declining in major economies and world trade growth slowing, the stability seen in freight markets throughout 2012 could be under threat. Declines in business confidence also signal potential for further weakness in demand over the next few months.



Total Market



➤ Asia/Pacific airlines continue to struggle most. Total demand for air freight carried by the region's airlines was 5.5% lower in August compared to a year ago. Another region of weakness in air freight traffic is Latin America. Total FTKs were 3.9% lower in August than a year ago. Consistent with the cyclical slowdown in the region's economic growth, the trend in air freight demand has been showing weakness since the start of Q2 2012. Air freight carried by Middle Eastern airlines, in contrast, continues to expand strongly. In August airlines in that region experienced an 11.3% increase in air freight traffic compared to a year ago.

➤ As is the case with passenger markets, airlines have responded to weaker air freight demand by slowing their expansion of capacity. Nevertheless, the fall in demand over the month, 0.8%, was larger than the capacity cut of 0.4%, pushing freight load factors down 0.2% in August compared to July.

ANNEX

Year on Year Comparison	Aug 2012 vs. Aug 2011						YTD 2012 vs. YTD 2011					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	3.2%	6.0%	68.3%	11.1%	7.9%	23.6%	8.3%	8.7%	66.3%	10.5%	12.5%	25.1%
Asia/Pacific	2.9%	1.4%	79.4%	-6.3%	-3.7%	58.7%	5.4%	3.4%	78.0%	-7.3%	-2.6%	59.5%
Europe	5.6%	4.4%	84.9%	-1.1%	1.4%	44.9%	6.2%	4.0%	80.5%	-3.8%	1.0%	47.4%
Latin America	7.3%	5.8%	78.2%	-3.6%	13.1%	34.5%	9.1%	7.6%	78.8%	-1.4%	6.2%	38.4%
Middle East	16.7%	13.3%	78.4%	11.4%	10.5%	42.2%	16.9%	13.0%	78.0%	14.1%	13.1%	44.7%
North America	0.5%	-0.5%	86.9%	1.8%	-2.1%	39.2%	1.4%	0.0%	82.0%	-1.3%	-0.4%	40.5%
International	5.3%	4.1%	82.1%	-1.3%	0.7%	46.9%	6.6%	4.6%	79.1%	-2.6%	1.5%	48.7%
Australia	2.5%	8.2%	75.4%				3.5%	4.9%	76.9%			
Brazil	9.4%	1.7%	73.0%				9.4%	9.0%	70.3%			
China P.R.	10.8%	12.2%	83.6%				9.4%	11.2%	81.4%			
India	-2.0%	0.7%	66.6%				2.7%	4.7%	73.3%			
Japan	-2.1%	2.7%	68.0%				5.2%	2.8%	60.5%			
US	2.4%	1.4%	86.7%				1.1%	0.3%	83.9%			
Domestic	4.8%	4.2%	82.3%	2.2%	-0.7%	28.7%	4.5%	4.1%	79.7%	1.0%	-1.2%	28.5%
Africa	3.2%	5.3%	68.5%	10.2%	8.1%	23.1%	7.2%	7.4%	66.9%	9.7%	12.5%	24.5%
Asia/Pacific	4.8%	4.7%	79.5%	-5.5%	-3.1%	54.4%	6.4%	5.5%	77.7%	-6.6%	-2.0%	55.2%
Europe	5.4%	4.0%	83.9%	-0.8%	1.9%	44.0%	6.0%	3.7%	79.7%	-3.5%	1.2%	46.5%
Latin America	10.0%	5.8%	76.7%	-3.9%	14.0%	34.2%	10.4%	9.1%	76.2%	-1.5%	8.3%	36.6%
Middle East	16.2%	13.0%	78.3%	11.3%	10.4%	41.7%	17.1%	13.2%	78.1%	14.0%	13.0%	44.1%
North America	1.8%	0.7%	86.8%	2.0%	-2.3%	33.9%	1.3%	0.2%	83.2%	-0.5%	-1.7%	34.5%
Total Market	5.1%	4.1%	82.1%	-0.8%	0.4%	43.0%	5.8%	4.4%	79.3%	-2.1%	0.9%	44.4%

RPK: Revenue-Passenger-Kilometers; ASK: Available-Seat-Kilometers; PLF: Passenger-Load-Factor; FTK: Freight-Tonne-Kilometers; AFTK: Available Freight Tonne Kilometers; FLF: Freight Load Factor;
All Figures are expressed in % change Year on Year except PLF and FLF which are the load factors for the specific month.

Month on Month Comparison	August 2012 vs. July 2012						Market Share	
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	FTK
Africa	-0.8%	-0.4%	-0.3%	2.5%	-1.8%	1.1%	3.2%	1.4%
Asia/Pacific	-0.5%	-0.5%	0.0%	-1.8%	-1.3%	-0.3%	24.4%	41.0%
Europe	0.5%	0.3%	0.1%	0.8%	0.0%	0.4%	42.1%	24.4%
Latin America	1.1%	0.4%	0.6%	0.8%	0.3%	0.2%	4.1%	3.0%
Middle East	1.6%	0.7%	0.7%	-1.9%	0.8%	-1.2%	11.5%	13.0%
North America	0.5%	0.1%	0.3%	0.0%	-0.6%	0.2%	14.7%	17.1%
International	0.0%	0.2%	-0.2%	-0.8%	-0.2%	-0.7%	100.0%	100.0%
Australia	-0.6%	0.2%	-0.8%				3.0%	
Brazil	1.8%	0.2%	1.6%				3.4%	
China P.R.	0.9%	0.8%	0.0%				20.5%	
India	0.5%	-0.6%	0.8%				2.4%	
Japan	-1.4%	-0.9%	-0.3%				3.1%	
US	0.4%	0.0%	0.3%				46.5%	
Domestic	0.1%	0.3%	-0.2%	-0.3%	-1.1%	0.2%	100.0%	
Africa	-0.7%	0.0%	-0.4%	2.5%	-1.9%	1.1%	2.3%	1.2%
Asia/Pacific	-0.2%	-0.2%	0.1%	-1.6%	-1.2%	-0.2%	27.8%	38.8%
Europe	0.5%	0.4%	0.0%	0.8%	0.3%	0.2%	30.0%	21.5%
Latin America	0.2%	0.1%	0.1%	0.2%	-0.9%	0.4%	5.0%	2.9%
Middle East	1.5%	0.6%	0.6%	-1.9%	0.7%	-1.2%	7.7%	11.2%
North America	0.2%	0.1%	0.1%	-0.1%	0.5%	-0.2%	27.2%	24.4%
Total Market	0.0%	0.3%	-0.2%	-0.8%	-0.4%	-0.2%	100.0%	100.0%

Data are seasonally adjusted.

All figures are expressed in % change month on month except, PLF pt and FLF pt which are the percentage point difference between load factors of two consecutive months.

IATA Economics
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28TH September 2012

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